

Message Text

LIMITED OFFICIAL USE

PAGE 01 KATHMA 00449 01 OF 02 250412Z

64

ACTION NEA-09

INFO OCT-01 EA-06 ISO-00 CIAE-00 DODE-00 PM-03 H-01 INR-07

L-02 NSAE-00 NSC-05 PA-01 RSC-01 PRS-01 SP-02 SS-15

USIA-06 IO-10 AID-05 EB-07 COME-00 OMB-01 TRSE-00

CIEP-01 STR-01 EUR-12 SAM-01 /098 W

----- 035591

R 241045Z JAN 75

FM AMEMBASSY KATHMANDU

TO SECSTATE WASHDC 0645

INFO AMCONSUL CALCUTTA

AMCONSUL HONG KONG

AMEMBASSY NEW DELHI

USLO PEKING

LIMITED OFFICIAL USE SECTION 1 OF 2 KATHMANDU 0449

E.O. 11652: N/A

TAGS: PFOR, IN, NP

1. SUMMARY: THERE HAVE BEEN A SPATE OF STORIES IN BOTH THE INDIAN AND NEPALESE PRESS TO THE EFFECT THAT INDIA HAS, OR IS CONTEMPLATING, RESTRICTING THE EXPORT TO NEPAL OF GOODS IN SHORT SUPPLY AND WHICH ARE CURRENTLY ON THE "QUOTA LIST" OF COMMODITIES TRADED UNDER TERMS OF THE TRADE AND TRANSIT AGREEMENT OF 1971. THERE HAVE ALSO BEEN RUMORS THAT THE GOI WILL ABROGATE THE QUOTA LIST IN MARCH AND WILL DEMAND PAYMENT FOR SUCH GOODS IN CONVERTIBLE CURRENCY AFTER THAT DATE. THE FOLLOWING MESSAGE PUTS THESE REPORTS INTO PERSPECTIVE AND ANALYZES THEIR IMPLICATIONS FOR U.S. POLICY. END SUMMARY.

2. EMBASSY OFFICERS HAVE DISCUSSED THESE STORIES AT THE FOREIGN MINISTRY (BHATT,JOINT SECRETARY), THE INDIAN EMBASSY (PRASAD, FIRST SECRETARY), AS WELL AS WITH THE KING'S JOINT PRESS SECRETARY, CHIRAN THAPA. ALTHOUGH THERE

LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 KATHMA 00449 01 OF 02 250412Z

ARE SOME MINOR DISAGREEMENTS, WE HAVE BEEN ABLE TO PIECE

TOGETHER THE FOLLOWING VERSION OF EVENTS WHICH HAVE LED TO THE CURRENT REPORTS.

3. UNDER THE TERMS OF THE TRADE AND TRANSIT AGREEMENT A LIST OF GOODS IS DRAWN UP ANNUALLY WHICH INDIA PROMISES TO DELIVER AGAINST RUPEE PAYMENT. THESE GOODS CURRENTLY INCLUDE CEMENT, COAL, CERTAIN IRON PRODUCTS, PAPER, SPIRIT, AND LEATHER GOODS AMONG OTHERS. UNTIL RECENTLY PETROLEUM PRODUCTS WERE ALSO ON THE QUOTA LIST. ACCORDING TO THE INDIAN EMBASSY THE MOST RECENT ANNUAL QUOTA AGREEMENT EXPIRED ON APRIL 1, 1974, BUT SINCE NEPAL HAD BEEN UNABLE TO TRANSPORT ALL THE GOODS BY THAT DATE BOTH SIDES AGREED TO EXTEND THE LIST UNTIL OCTOBER 31, 1974. STILL UNABLE TO TRANSPORT ALL GOODS BY THAT DATE, NEPAL ASKED FOR A FURTHER EXTENSION UNTIL DECEMBER 31 TO WHICH THE GOI AGREED.

4. ON JANUARY 1 INDIAN CUSTOMS OFFICIALS ON THE NEPALESE BORDER HALTED THE SHIPMENTS OF ALL GOODS ON THE QUOTA LIST ON THE GROUNDS THAT THE AGREEMENT OF 1974 HAD EXPIRED. AT THIS POINT STORIES DIFFER: MFA AND THE PALACE CLAIM THAT THEY UNDERSTOOD THAT THE AGREEMENT WOULD CONTINUE TO RUN AUTOMATICALLY UNTIL APRIL 1975; INDIAN SOURCES SAY THAT IN THE ABSENCE OF A SPECIFIC REQUEST TO EXTEND THE LIST, NO ACTION COULD BE TAKEN AND THE GOODS WERE STOPPED. IN ANY EVENT ALL AGREE THAT AFTER 10 DAYS INSTRUCTIONS WERE GIVEN TO BORDER OFFICIALS TO LET THE GOODS PASS. HMG HAS NOW ASKED FOR AND RECEIVED A FURTHER EXTENSION OF THE AGREEMENT UNTIL APRIL 1, 1975.

5. BOTH MFA AND INDIAN SOURCES HAVE CONFIRMED THAT THE PRICES OF CERTAIN COMMODITIES ON THE LIST, I.E., CEMENT AND COAL, HAVE BEEN INCREASED TO MEET WORLD PRICE LEVELS BUT THAT RUPEE PAYMENTS ARE ACCEPTED. ACCORDING TO THE INDIAN EMBASSY CERTAIN OTHER PRODUCTS ARE SIMPLY UNAVAILABLE FROM INDIA (SUCH AS PAPER PRODUCTS AND CERTAIN TYPES OF FLOUR) AND HAVE, BY JOINT AGREEMENT, BEEN DROPPED FROM THE LIST. THIS, TOO, WAS THE CASE WITH POL PRODUCTS WHICH NEPAL NOW PURCHASES FROM THIRD COUNTRY SUPPLIERS FOR HARD CURRENCY.

6. AS TO THE FUTURE (AFTER APRIL 1, 1975 WHEN THE CURRENT LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 03 KATHMA 00449 01 OF 02 250412Z

AGREEMENT IS TO EXPIRE) THERE HAS BEEN PRESS SPECULATION THAT INDIA WILL EITHER DRASTICALLY REDUCE GOODS AVAILABLE OR WILL DEMAND HARD CURRENCY PAYMENT. JOINT SECRETARY BHATT CONFIRMED THAT HE, TOO, HAD SEEN THESE ARTICLES. WERE THE GOI TO TAKE SUCH ACTION, HE SAID, IT WOULD "DRASTICALLY ALTER THE FUNDAMENTAL RELATIONSHIP BETWEEN THE TWO COUNTRIES." ACCORDING TO BHATT SUCH ACTION WOULD ALSO BE A VIOLATION OF THE TRADE AND TRANSIT AGREEMENT OF 1971

AS WELL AS OF THE ASIAN PAYMENTS UNION AGREEMENT UNDER ECAFE.

7. THE INDIAN EMBASSY WENT TO SOME LENGTHS TO DISCLAIM ANY SUCH INTENTIONS. YES, THEY HAD URGED A MEETING IN THE NEAR FUTURE OF THE JOINT REVIEW COMMITTEE, A BODY CREATED UNDER THE TRADE AND TRANSIT AGREEMENT TO REGULATE DIFFICULTIES AND TO DISCUSS IMPLEMENTATION OF THE AGREEMENT. AT THAT TIME NEW QUOTAS FOR 1975 WOULD BE DISCUSSED. ALTHOUGH INDIA FACED SHORTAGES IT WAS WILLING TO MEET NEPAL'S NEEDS "WITH MINOR FLUCTUATIONS" BASED ON 1973-74 LEVELS. THE GOI, FURTHERMORE, HAD NO INTEREST IN DEPLETING NEPAL'S FOREIGN CURRENCY RESERVES BY DEMANDING PAYMENT IN HARD CURRENCY. THE EMBASSY SOURCE DID SAY, HOWEVER, THAT THERE WERE LIKELY TO BE PRICE INCREASES IN CERTAIN COMMODITIES WHICH WERE, OF COURSE, NEGOTIABLE. HMG HAD UNDERSTOOD THAT CERTAIN ITEMS WERE UNAVAILABLE. INDIA HAD EMBARGOED THE EXPORT OF PAPER TO ALL COUNTRIES; THIS WAS IN NO WAY DISCRIMINATORY AGAINST NEPAL. HE ALSO STATED HIS "PERSONAL OPINION" THAT A DIVERSIFICATION OF NEPAL'S FOREIGN TRADE WAS IN HMG'S LONG RANGE INTEREST IN ANY EVENT. IF THEY WANTED TO PURCHASE CEMENT AND STEEL FROM THIRD COUNTRIES, SO BE IT. IF, ON THE OTHER HAND, THEY WISHED TO CONTINUE PURCHASES IN RUPEES, INDIA "WOULD DO ITS BEST TO MEET THOSE REQUIREMENTS."

LIMITED OFFICIAL USE

NNN

LIMITED OFFICIAL USE

PAGE 01 KATHMA 00449 02 OF 02 250251Z

64

ACTION NEA-09

INFO OCT-01 EA-06 ISO-00 CIAE-00 DODE-00 PM-03 H-01 INR-07

L-02 NSAE-00 NSC-05 PA-01 RSC-01 PRS-01 SP-02 SS-15

USIA-06 IO-10 AID-05 EB-07 COME-00 OMB-01 TRSE-00

CIEP-01 STR-01 EUR-12 SAM-01 /098 W

----- 034857

R 241045Z JAN 75

FM AMEMBASSY KATHMANDU

TO SECSTATE WASHDC 0646

INFO AMCONSUL CALCUTTA

AMCONSUL HONG KONG

AMEMBASSY NEW DELHI

USLO PEKING

LIMITED OFFICIAL USE SECTION 2 OF 2 KATHMANDU 0449

8. IN A MEETING WITH THE DCM JANUARY 23 CHIRAN THAPA MADE MANY OF THE SAME POINTS. STRESSING THE IMPORTANCE WHICH NEPAL ATTACHED TO ITS RELATIONS WITH INDIA, HE INDICATED NEPAL WAS SYMPATHETIC TO INDIA'S CURRENT ECONOMIC PROBLEMS. IT UNDERSTOOD THAT THERE WERE SHORTAGES IN INDIA, THAT PRICE INCREASES WOULD BE NECESSARY, AND THAT SOME CHANGE IN THE TRADITIONAL PATTERN OF TRADE IN QUOTE GOODS WOULD HAVE TO TAKE PLACE. HE ADDED THAT IT WAS A LONG STANDING GON POLICY TO DIVERSIFY ITS TRADE WITH THIRD COUNTRIES, BUT THIS WOULD BE A GRADUAL AND STEADY PROCESS TAKING MANY YEARS. THIS DIVERSIFICATION, HOWEVER, WOULD NOT AFFECT THE KING'S DESIRE FOR A "SOBER AND MATURE" RELATIONSHIP WITH INDIA. NEPAL WOULD NOT INITIATE ANY BASIC CHANGES IN ITS ECONOMIC RELATIONSHIP WITH INDIA AND LOOKED FORWARD TO THE NEXT MEETING OF THE JOINT REVIEW COMMITTEE TO IRON OUT EXISTING DIFFICULTIES. THAPA ALSO COMMENTED THAT NEPAL WOULD NEED ADDITIONAL RESOURCES TO FINANCE ITS DIVERSIFIED IMPORTS AND HOPEFULLY WOULD BE ABLE TO DRAW ON FUNDS BEING MADE AVAILABLE BY OIL PRODUCING STATES. HE NOTED THAT ON THE AID SIDE HE

LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 KATHMA 00449 02 OF 02 250251Z

EXPECTED CHINA TO INCREASE ITS ASSISTANCE AND PERHAPS BECOME THE PRINCIPAL DONOR TO NEPAL'S DEVELOPMENT.

9. COMMENT: IT APPEARS THAT PRESS STORIES ON BOTH SIDES HAVE GROSSLY OVERSTATED THE PROBLEM. REPORTS IN THE SEMI-OFFICIAL KATHMANDU PRESS MAY HAVE BEEN GOVERNMENT INSPIRED IN AN EFFORT TO PUT PUBLIC PRESSURE ON THE GOI TO RELEASE GOODS WHICH WERE BEING HELD UP IN RAXAUL. THE INDIAN PRESS, ON THE OTHER HAND, MAY HAVE BEEN REFLECTING THE VIEWS OF INDIAN EMBASSY OR OTHER SOURCES WHO WERE STATING A MAXIMUM POSITION WITH WHICH TO PUT POLITICAL PRESSURE ON HMG AT A TIME WHEN THE KING IS CONTEMPLATING POLITICAL AND CONSTITUTIONAL REFORM.

10. IT SEEMS CERTAIN THERE WILL BE NEGOTIATIONS, PROBABLY AFTER THE CORONATION, DURING WHICH THE GOI COULD PROPOSE MAJOR MODIFICATIONS IN TRADITIONAL TRADE. THESE COULD INCLUDE SUBSTANTIAL PRICE INCREASES IN KEY COMMODITIES, AS WELL AS A PLEA THAT SHORTAGES IN INDIA MADE DELIVERY OF OTHERS IMPOSSIBLE. THE TENOR OF NEGOTIATIONS WILL BE SET IN LARGE MEASURE BY THE STATE OF POLITICAL RELATIONS AT THAT TIME. IT SEEMS UNLIKELY, HOWEVER, THAT THE GOI WOULD SUDDENLY ABROGATE PREVIOUS AGREEMENTS EITHER BY EMBARGOING EXPORT OF ALL QUOTE GOODS OR DEMANDING PAYMENT IN CONVERTIBLE CURRENCY. SUCH AN UNLIKELY STEP WOULD BE SO DRASTIC AS TO CALL INTO QUESTION INDIA'S OFT PROCLAIMED COMMITMENT TO

NON-INTERFERENCE IN THE AFFAIRS OF ITS NEIGHBORS AND ITS WILLINGNESS TO TOLERATE THE EXISTING MONARCHIAL STRUCTURE IN NEPAL. THERE IS, HOWEVER, A CONCERN ON THE PART OF SOME NEPALESE THAT INDIAN ACTIONS MARK THE BEGINNING OF AN ECONOMIC SQUEEZE ON NEPAL DESIGNED TO BUILD UP INTERNAL PRESSURE IN NEPAL THAT WILL LEAD TO MAJOR POLITICAL CHANGE IN DIRECTIONS MANY INDIANS DESIRE--A WEAKENING OF ROYAL POWER AND THE CREATION OF A POLITICAL SYSTEM MORE AKIN TO INDIA'S DEMOCRACY. WE DO NOT BELIEVE INDIAN ACTIONS CONFIRM THIS THESIS.

11. SO FAR AS NEPAL IS CONCERNED WE ANTICIPATE A CONTINUATION OF THE CONCILIATORY APPROACH REFLECTED IN CHIRAN THAPA'S CONVERSATION WIT THE DCM. NEPAL CANNOT AFFORD A RUPTURE OF ECONOMIC RELATIONS WITH INDIA; HOWEVER, IT WILL SEEK GRADUAL DIVERSIFICATION OF ITS TRADE TO LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 03 KATHMA 00449 02 OF 02 250251Z

REDUCE ITS DEPENDENCE ON INDIA. VARIOUS RESPONSIBLE GON LEADERS HAVE TOLD US FRANKLY THIS COULD ONLY TAKE PLACE OVER A PERIOD OF FIVE TO 10 YEARS AND WILL DEPEND ON THE QUANTUM OF EXTERNAL RESOURCES NEPAL CAN OBTAIN FROM PIL PRODUCERS AND OTHER FRIENDLY DONORS. WE DO NOT ANTICIPATE ANY DRAMATIC SHIFTS IN TRADING OR AID PATTERNS, ALTHOUGH IT IS POSSIBLE, AS CHIRAN THAPA INDICATED, THAT THE PRC MAY TAKE ON A MORE SALIENT ROLE. IN THIS EVENT WE CAN ANTICIPATE EXPRESSIONS OF ANNOYANCE AND CONCERN BY BOTH INDIA AND THE SOVIET UNION. IN TERMS OF U.S.-NEPAL RELATIONS WE CAN EXPECT INCREASING DEMANDS FOR BILATERAL COMMODITY FINANCING AND FOR SUPPORT FOR NEPAL'S EFFORTS TO OBTAIN ACCESS TO SPECIAL DEVELOPMENT RESOURCES OF THE IMF AND IBRD.

12. WE WOULD APPRECIATE EMBASSY NEW DELHI'S COMMENTS.
CARGO

LIMITED OFFICIAL USE

NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: TRADE LAW, COMMODITIES, EXPORT CONTROLS
Control Number: n/a
Copy: SINGLE
Draft Date: 24 JAN 1975
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: johnsorg
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975KATHMA00449
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D750028-0600
From: KATHMANDU
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t19750123/aaaaaukk.tel
Line Count: 261
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION NEA
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 5
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: johnsorg
Review Comment: n/a
Review Content Flags:
Review Date: 09 JUL 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <09 JUL 2003 by MartinML>; APPROVED <13 NOV 2003 by johnsorg>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
05 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: n/a
TAGS: PFOR, IN, NP
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 05 JUL 2006